Driving Improvements in Health Care Delivery

Group Insurance Commission

Fiscal Year 2006 Annual Report

Commonwealth of Massachusetts
Group Insurance Commission
Your Benefits Connection

THE GROUP INSURANCE COMMISSION

The mission of the Group Insurance Commission is to provide high value health, life, and other benefits to state employees, retirees, and their survivors and dependents. The agency works with vendors selected through competitive bidding processes to offer cost-effective services through careful plan design and rigorous ongoing management. The agency's performance goals are enrollee satisfaction with cost-effective, high-quality benefits offered at the most competitive prices attainable, and, as the largest purchaser of benefits in the Commonwealth, using that position to help drive improvements in the entire health care delivery system.

The GIC Offers the Following Benefit Programs:

A diverse array of health insurance options

Basic and optional term life insurance

Long Term Disability (LTD) insurance

Dental/Vision coverage for managers, Legislators, Legislative staff and certain Executive Office employees

Dental coverage for retirees

Discount vision plan for retirees

Health Care Spending Account (HCSA)

Dependent Care Assistance Program (DCAP)

COMMONWEALTH OF MASSACHUSETTS
GROUP INSURANCE COMMISSION
Fiscal Year 2006 Annual Report
Editor: CYNTHIA E. MCGRATH

Design and Printing: RED SUN PRESS
Printed on Recycled Paper

Printed December 2006

Dear Friends:

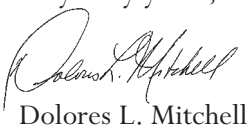
"Pedal to the metal" has sometimes been described as my driving style. I know I need to get somewhere, always map out where I am going, and want to get there quickly and safely. The Group Insurance Commission's drive to improve health care delivery is similar. While we don't claim that our improvement program is perfect, it is based on sound logic and analysis of the most comprehensive data set ever collected. We are convinced that it is critical to take action to address the cost and quality chasm that characterizes too much of health care today.

Health care cost increases have escalated steadily for the past decade. Hospitals, physicians, and other providers have increased charges. Prescription drug costs have soared driven by a flood of new drugs, patent extensions, and specialty biotech drugs. Patients are using more expensive services, especially radiology and other high tech imaging. At the same time, the population is aging. National health economy experts expect that health care costs will continue to rise over the next few years. The GIC's premium increases have averaged roughly ten percent per year over the last five years, on par with large employers nationally. The GIC continues its work to reduce these increases through strong program management, negotiating, strategic planning, and our leverage as the dominant health care purchaser in our market. While recent trends are down somewhat, they still exceed the general rate of inflation.

The GIC does not wish to adopt some of the cost reduction measures used by other large employers, such as high-deductible plans, or to eliminate retiree health insurance coverage entirely. Instead, three years ago the GIC launched an innovative program called the Clinical Performance Improvement (CPI) Initiative to address the wide disparity in the quality of care delivered by physicians and hospitals as well as the precipitous rise in health care costs. Instead of shifting costs, the CPI Initiative seeks to drive changes in the health care delivery system. By quantifying and sharing differences in provider cost-effectiveness and quality, and giving enrollees modest incentives to choose better performing providers, we seek to raise the performance bar. We believe that our approach will enhance health care quality and cost-effectiveness potentially for all Massachusetts employers, consumers, and taxpayers. This is the right thing to do.

We hope that as you read this annual report, you will conclude that we do our best to use taxpayer's money prudently, serve our enrollees, and drive changes that have the potential to improve health care quality for all Massachusetts residents.

Very truly yours,



Dolores L. Mitchell
Executive Director

DRIVING IMPROVEMENTS IN HEALTH CARE DELIVERY

Ahead of the Pack – The GIC's CPI Initiative

Health policy experts believe that modifying provider behavior is the key to increasing the quality and reducing the cost of health care. The GIC's Clinical Performance Improvement (CPI) Initiative is a major project predicated on the belief that, working with all health care participants – enrollees, providers, purchasers, the government, and insurers – real change can be realized in improving health care quality while managing costs. The CPI Initiative helps preserve comprehensive health benefits and provider choice, while improving health care quality and cost-efficiency, by modifying both consumer and provider behavior.

To implement the CPI Initiative, the GIC and its consultant, Mercer Human Resource Consulting, created a database of 120 million de-identified claims from all of our health plans. This data was analyzed to quantify differences in care. Performance data for each doctor was given to the health plans, to enable the plans to develop new benefit designs that encourage members to see physicians who provide higher-quality, more cost-efficient care. Members may choose from plan designs that include selective networks and/or provider tiering.

Health Plans Accelerate to Meet Our Challenge – New Plan Designs

As part of the GIC's FY04 health plan procurements, we mandated that all of our health plans implement benefit programs by the spring of 2006 in keeping with our CPI Initiative mandate to give enrollees modest co-pay incentives for choosing cost-effective, quality physicians, hospitals or selective physician and hospital networks. In the fall of 2005, the GIC provided "refreshed" data to the GIC's health plans. This gave the plans both multi-plan and health plan-specific provider efficiency scores and de-identified claims data to develop their FY07 plan designs.

All GIC Health Plans Rose to Our Challenge:

- Commonwealth Indemnity Plan Community Choice implemented tiering (different co-pays based on quality and cost-efficiency) for all physicians. Members pay lower co-pays if they get care from more cost-effective and higher quality providers.
- Commonwealth Indemnity Plan PLUS implemented tiering for all physicians. Members pay lower co-pays if they seek care from more cost-efficient and higher quality providers.
- Fallon Community Health Plan Select Care established tiering for its primary care physician network. Members who seek care from the preferred tier PCPs pay a lower co-pay than members seeking care from non-preferred tier PCPs. Additionally, the tier of the member's PCP determines co-payments for other health care services.
- Harvard Pilgrim Health Care implemented a new PPO plan called the Independence Plan. Five physician specialties are tiered based on the cost-effectiveness of their practices. Members seeing a preferred specialist pay a lower co-pay than for non-preferred specialists or other specialists who are not subject to tiering.
- Health New England implemented a three-tier co-pay benefit for the primary care physicians in its network. Family Practice/Internal Medicine and Pediatricians have different co-pays based on the cost-effectiveness of their practices.
- Navigator by Tufts Health Plan instituted co-pay tiering for its surgical specialists. Members pay a lower co-pay when using a surgical specialist whose primary affiliation is with a high quality and cost-efficient hospital.
- Neighborhood Health Plan introduced a new plan, called NHP Community Care. This plan has a selective network with primary care based at NHP's Community Health Centers and Harvard Vanguard Medical Associates sites.

Commanding Attention

The GIC's CPI Initiative has received national attention and has been cited as one of the most advanced efforts to provide meaningful performance information to enrollees in the country. The GIC's Executive Director has been asked to speak about this initiative at a variety of health policy forums across the country. The health care community, particularly other employers, policy experts, and governmental agencies, have been very interested in this program and its potential impact.

★★★★The Pioneer Institute awarded the GIC a "Better Government" award in the summer of 2006 for the CPI Inititative.

The GIC has actively worked to keep provider representatives apprised of our efforts and has been working with other health care purchasers and organizations throughout the country to begin developing mutually acceptable quality benchmarks. However, the program is not without its critics. The provider community has been supportive of the idea of transparency, but has questioned the findings, methodology, timing and dissemination of this information to enrollees. However, we continue to talk to and meet with provider groups to keep the channels of communication open.

PROVIDING ROAD MAPS FOR IMPROVED HEALTH

In the summer of 2005, the Commission authorized trust fund expenditures to help members take better care of their own health. These pilot programs included:

Advance Care Planning

Most members are unprepared for a medical emergency or for end of life medical decisions. They have not written a living will or designated a health care proxy. UniCare, the administrator of the Commonwealth Indemnity Plans, developed an innovative program in cooperation with the GIC to help address this need. The Plan sent end-of-life planning materials to all Commonwealth Indemnity Plan members aged 65 and over. Last fall, the Plan sent members advance directive forms and held a series of meetings to help members complete the forms. Over 520 members attended these seminars.

Walk This Way

Health New England implemented a walking competition at selected western Massachusetts state agencies. Employees competed against each other to walk 10,000 steps to good health, completing a web-based health risk assessment, which tracked baseline blood pressure, body mass index, cholesterol and glucose measurements. After completing the survey, participants received a pedometer to track how far they walked. At its peak, a total of 109 employees from four agencies participated in this program.

Improving Health Knowledge

GIC members of Fallon Community Health Plan received a medical reference manual, the *Healthwise® Handbook*. This book includes comprehensive and current health-related information to help members take charge of their own health.

Cancer and Oral Health

Separately, the GIC sponsored an innovative pilot program, in conjunction with UniCare and Delta Dental, to raise awareness of the contribution of good oral health to reducing complications of cancer treatment. This program provided member education as well as education and outreach to dentists and oncology providers. In addition to plan participant outreach, The GIC also ran a feature article about cancer's oral complications in the fall issue of our *For Your Benefit* newsletter, so that all members would be aware of steps they can take to minimize cancer's oral complications.

★★★★GIC Pilot Programs Win Awards

- 2006 Commonwealth Indemnity Plan Advance Care Planning Pilot Program: Central Massachusetts Partnership to Improve Care at the End of Life "Brownie Wheeler and Bill Densmore Making a Difference Community Award"

Constance Williams, MD, of UniCare, accepts the "Brownie Wheeler and Bill Densmore Making a Difference Community Award" from Christine McCluskey, RN, Executive Director of the Central Massachusetts Partnership to Improve Care at the End of Life.

- Oral Health Cancer Pilot Program - 2005 New England Employee Benefits Council "Best Practices Award"

Continued Commitment to Improving Patient Safety

The GIC continued its push to improve patient safety. Since 1999, the GIC has been a member of the Leapfrog Group, a coalition of organizations devoted to improving patient safety. The Leapfrog Group produces a Report Card on hospitals' compliance with four patient safety steps that are scientifically proven to reduce death and injury. The GIC included this report in the winter 2006 issue of *For Your Benefit*. We also continued to offer a helpful hospital quality research tool on our website. This tool includes condition- or disease-specific hospital comparisons enabling members to research their hospital options. Electronic medical records will also improve patient safety, and the GIC has been very involved in efforts to bring these changes about, including serving on the boards of the Massachusetts eHealth Collaborative and the Coalition for the Prevention of Medical Errors.

PROGRAM NEWS

Prescription Drug Benefits For the Commonwealth Indemnity Plan

At the beginning of FY06, the GIC introduced innovative prescription drug programs to encourage members' compliance with their medication regimen and to contain rising costs:

- To encourage member drug compliance, the GIC reduced co-pays to a low of $2.00 retail and $4.00 mail-order for certain generic drugs
- The GIC moved drugs of questionable efficacy, value and/or safety to the higher non-preferred brand drug tier.
- The GIC began a pilot program to cover over-the-counter versions of Prilosec at the low generic prescription drug co-pay level. This was a first – covering an over-the-counter drug because it offers greater value than higher priced generics or brands.

These programs saved the Commonwealth a total of $6 million in FY06.

Pre-Tax Programs

After analysis of the election amounts for the Health Care Spending Account (HCSA) pre-tax program for out-of-pocket medical expenses, the Commission voted to increase the maximum amount from $2,000 to $2,500 for 2006 calendar year benefits.

Additionally, convenient online re-enrollment was offered for both this program and the Dependent Care Assistance Program. Participation in the GIC's pre-tax programs jumped 27% over 2005 levels to 5,250, and over 2,000 employees took advantage of the online re-enrollment option.

Life Insurance

The GIC selected The Hartford Group Benefits as its new life insurance carrier, and negotiated rate reductions and improved benefits effective July 1, 2006:

- The GIC broke new ground on life insurance benefits when it voted to adopt war and terror benefits for life and accidental death and dismemberment for the FY07 fiscal year. No other employers in the area currently offer this coverage. The GIC's initiative ensures that employees serving our country throughout the world, as well as employees affected by terrorism, will now have some peace of mind that their loved ones will be taken care of by their GIC insurance.
- Optional life insurance rates decreased by an average of 7.7%.
- The one-year waiting period to increase or enroll in optional life insurance coverage was eliminated. Active state employees are now able to apply for additional Optional Life and Accidental Death & Dismemberment benefits at any time with proof of good health.

Program Rate Negotiations

The GIC successfully held the line on other benefit program rates. There were no premium increases in the Dental/Vision Plan, Long Term Disability Plan, or the Retiree Dental Plan.

Medicare and the Group Insurance Commission

The federal government implemented the Medicare Part D prescription drug insurance program on January 1, 2006. One of the features of this program was incentives to encourage employers that already offered comprehensive prescription drug coverage to their retirees to continue to do so. After assessing the options, the Commission decided to apply for the subsidy for the majority of its Medicare enrollees (and to apply for a health insurance premium subsidy for other Medicare enrollees). The federal government is expected to pay roughly $16 million in subsidies to the Commonwealth's General Fund for calendar year 2006.

★★★★Medicare Part D Working Group Receives Massachusetts Pride in Performance Award

The GIC's Medicare Part D working group received one of the 2006 Commonwealth of Massachusetts Outstanding Performance Awards. The group's work involved determining the best option for implementing the federal government's new prescription drug program, working with the health plans to implement these decisions, establishing data matches with the federal government and health plans, and developing a comprehensive communications campaign for enrollees. As a result of the group's work, the Committee eliminated a lot of the confusion that the general Medicare population encountered and the Commonwealth will be partially reimbursed annually by the federal government for providing prescription drug coverage to its Medicare members.

The Medicare Part D Working Group receives a Massachusetts Pride in Performance Award. First row left to right: Fiscal Affairs Director, Marty Foley, Program Manager and Assistant Director, David Czekanski, General Counsel, Lisa Boodman, and Field Operations Supervisor, Paul Murphy. Second row: GIC Executive Director, Dolores L. Mitchell, Deputy Director, Bob Johnson, HMO Coordinator, Donna Wortman, Public Information Supervisor, Judy Settana, and Chief Information Officer, Karen Martin.

Annual Benefit Statements

To improve employees' overall understanding of their benefits with the Commonwealth, we added State Board of Retirement beneficiary information for employees who participate in this retirement system. Over 6,500 employees updated their SRB beneficiary information as the result of this enhancement.

COLLABORATION AND COMMUNICATIONS ARE KEY TO DRIVING CHANGES

GIC Annual Report FY 2006

Improving health care quality and cost-efficiency will only be accomplished through collaboration with others in the health care community. In addition to speaking engagements across the country, the GIC's Executive Director, as well as GIC staff, is involved in a number of organizations to collaborate with others. These organizations include The Massachusetts Health Care Purchasers Group, Associated Industries of Massachusetts (A.I.M.) Health Care Committee, and the New England Employee Benefits Council *(purchasers)*, the Massachusetts Health Data Consortium (MHDC), the Massachusetts eHealth Collaborative, eHealth Initiative Leadership Council, the Mass Health Council, the Leapfrog Group and the Mass Coalition for the Prevention of Medical Errors *(patient safety and medical information technology)*, and HR/CMS Executive Committee and National Committee for Quality Assurance *(government)*.

In addition to collaborating with others, the GIC continues its efforts to engage enrollees about their role in improving health care quality and cost efficiency. Some of our FY06 initiatives included:

- Articles about the CPI Initiative and other health topics in every issue of our quarterly newsletter, complemented by e-mail and website communication.
- Training for GIC Coordinators about the CPI Initiative in the spring; over 350 attended.
- New chart in the *Benefit Decision Guide* to help enrollees compare and contrast tiered benefits by plan.
- An all-new brochure to explain the CPI Initiative in depth.

NEXT UP ON THE ROAD

City of Springfield

Because of the fiscal crisis in the City of Springfield and the extensive role that the Commonwealth has played in funding the operations of the Commonwealth's third largest city, the Springfield Finance Control Board and representatives from the Executive Office of Administration and Finance approached the GIC about allowing Springfield's employees and retirees to purchase health insurance through the Group Insurance Commission. Subsequent to these conversations, the Commission adopted emergency regulations that allow all eligible members of the City of Springfield's health coverage to join GIC health coverage, with the cost of their members' health insurance paid by Springfield and its eligible enrollees to the GIC. Coverage becomes effective on January 1, 2007.

Municipal Health Insurance Working Group

With health insurance costs consuming an ever increasing share of municipal budgets, the GIC was approached by representatives from the Metropolitan Area Planning Commission (MAPC) and MAPC's Municipal Health Insurance Working Group – comprised of mayors, multiple public union representatives, state legislators, the Retiree Association and town managers — to discuss ways in which the municipalities could gain better control over their health insurance costs. These meetings culminated in a legislative proposal drafted by MAPC counsel in consultation with the GIC's General Counsel to allow municipal employees and retirees, as a local option, to join the GIC's health coverage. This legislation may be considered by the Legislature in 2007.

Health Care Reform Act

The Health Care Reform Act, passed by the legislature in April 2006, has major implications for the GIC. The GIC's Executive Director is one of ten board members on the new law's executive board, serving in an ex-officio capacity, and is also on its Quality and Cost Council. Additionally, many of the provisions of the legislation directly affect GIC eligibility and enrollment. Of particular note, it provides expanded coverage for unmarried dependents ages 19-26. This change will require significant programming and operational changes to account for imputed income for some, but not all such dependents, outreach and education, and work with our health plans.

GIC Annual Report FY 2006

LOOKING AHEAD

The next round of the Clinical Performance Improvement Initiative will undoubtedly engender great interest as more plans "drill down" to tier co-pays for individual physicians. Concern from physicians, primarily those who do not receive top rankings, could continue. We will continue to work with representatives of the Massachusetts Medical Society and our health plans to consider suggestions to improve the process wherever feasible. The Commissioners and staff remain committed to this implementation of transparency and accountability and will continue its role to drive changes in the health care delivery system – ultimately improving health care's cost and quality.

GROUP INSURANCE COMMISSION
STATEMENT OF EXPENDITURES
JULY 1, 2005 - JUNE 30, 2006

DESCRIPTION	COMMONWEALTH	EMPLOYEES
Administration (a)	$2,356,357	$0
State Employees and Retirees' Basic Life Insurance	$7,006,637	$1,429,898
State Employees' Optional Life Insurance	$0	$19,931,717
State Employees' Health Insurance (b)	$883,478,087	$189,030,078
State Employees' Dental And Vision for Managers, Legislators, Legislative Staff and Certain Employees of the Executive Offices	$6,059,759	$1,069,354
Long Term Disability For State Employees	$0	$10,477,435
Elderly Governmental Retirees' Health Insurance (c)	$933,392	$154,667
Retired Municipal Teachers' Life Insurance	$925,785	$190,952
Retired Municipal Teachers' Health Insurance	$62,950,672	$10,898,778
Grand Totals	$963,710,689	$233,182,879

(a) Plus an additional $935,038 from employees' trust funds and $13,458 from rate stabilization reserves which were used to pay employees' salaries as well as other administrative costs such as postage, telephone and supplies. These amounts are shown on the next two statements.

(b) Medical and prescription drug co-payments and deductibles for FY06 totaled approximately $106.1 million

(c) The EGR share includes $39,440 from the EGR Trust Fund and $31,473 from the EGR Rate Stabilization Reserve. These amounts are subsidies to the retirees' premiums.

RATE STABILIZATION RESERVE STATEMENT
JULY 1, 2005 - JUNE 30, 2006

RESERVE	BALANCE	RECEIPTS	EXPENDITURES	BALANCE
	7/1/05	7/1/05 - 6/30/06	7/1/05 - 6/30/06	6/30/06
Basic Life	$27,118.97	$168,005.15	$11,249.54	$183,874.58
Optional Life	$23,026,085.17	$1,363,676.82	$0	$24,389,761.99
Employee Health	$65,542.68	$2,675.24	$2,208,00	$66,009.92
Elderly Governmental Retiree Health	$250,091.11	$8,007.15	$31,472.60	$226,625.66
Retired Municipal Teacher Life	$93,002.90	$3,965.24	$0	$96,968.14
Retired Municipal Teacher Health	$24,965.36	$1,064.43	$0	$26,029.79
TOTAL	$23,486,806.19	$1,547,394.03	$44,930.14	$24,989,270.08

FINANCIAL AND TREND REPORTS

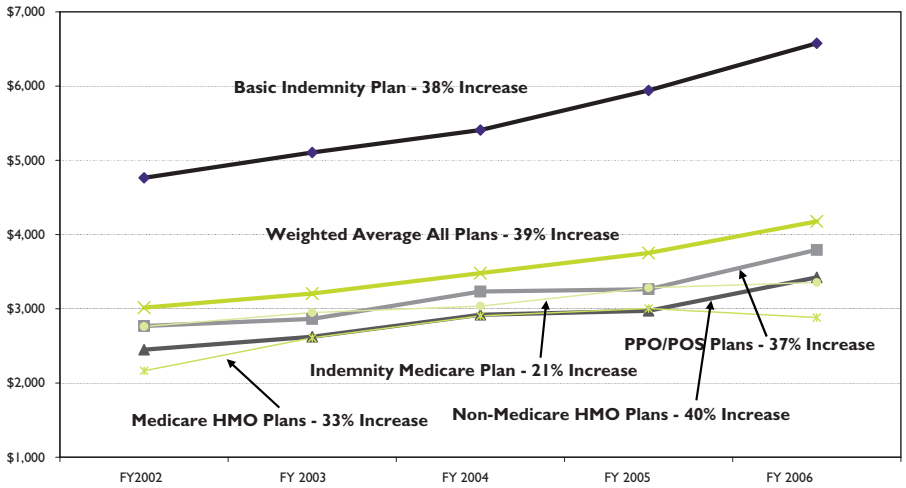
EMPLOYEES' TRUST FUND STATEMENTS

JULY 1, 2005 - JUNE 30, 2006

	State Employees' Trust Fund	Elderely Governmental Retirees' Trust Fund	Retired Municipal Teachers' Trust Fund
Balance 7/1/2005	$2,214,712.20	$272,807.39	$0.19
Receipts	$784,821.05	$10,011.93	$0.00
Expenditures	($1,234,649.26)	($39,440.00)	$0.00
Balance 6/30/2006	$1,764,883.99	$243,379.32	$0.19

COST PER CAPITA*

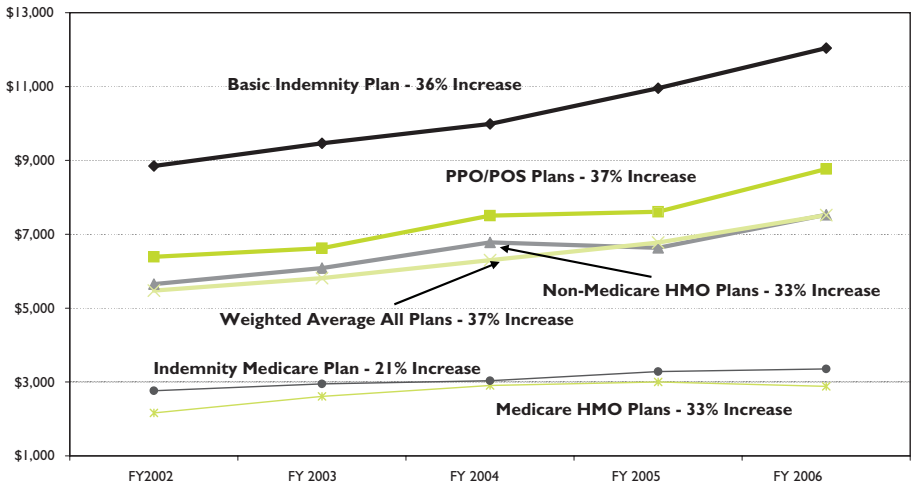
(Total State and Employee/Retiree Share)



* PPO/POS Plans included the Indemnity PLUS and Commonwealth PPO plans through 2004. In 2005 the HPHC POS and Indemnity Community Choice plans were added, and the HPHC and THP non-Medicare HMO plans were discontinued.
** Does not include EGRs, RMTs, or enrollees' out of pocket expenses.
Source: Pool 1 Age/Sex Composition Analysis, Fiscal Year 2006.

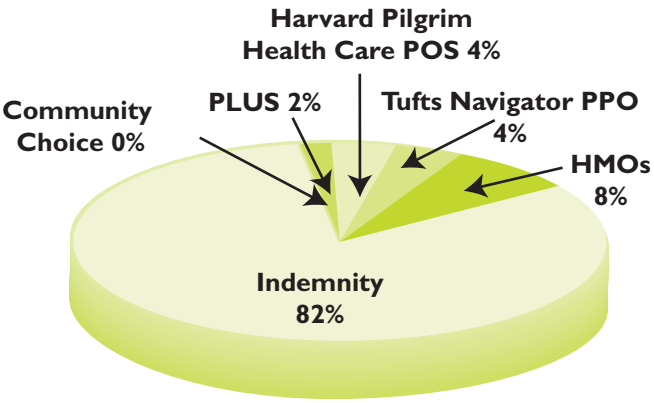
COST PER SUBSCRIBER (ENROLLEE)*

(Total State and Employee/Retiree Share)

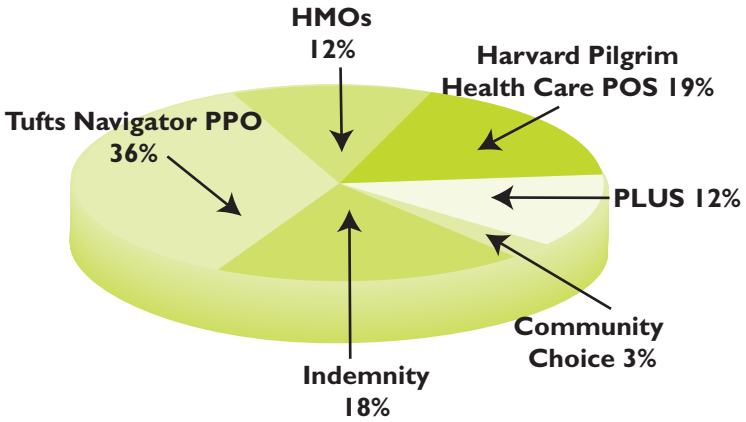


* PPO/POS Plans included the Indemnity PLUS and Commonwealth PPO plans through 2004. In 2005 the HPHC POS and Indemnity Community Choice plans were added, and the HPHC and THP non-Medicare HMO plans were discontinued.
** Does not include EGRs, RMTs, or enrollees' out of pocket expenses.
Source: Pool 1 Age/Sex Composition Analysis, Fiscal Year 2006.

Enrollment By Plan FY2006 Retirees And Survivors



Enrollment By Plan FY2006 Active Employees



Source: Pool I Age/Sex Composition Analysis Fiscal Year 2006. *Does not include EGRs and RMTs.

HEALTH PLAN MEMBERSHIP BY INSURED STATUS FY2006

	TOTAL ACTIVE*	TOTAL RET & SUR	TOTAL EGR&RMT	TOTAL ENROLLEES	TOTAL DEPENDENTS	TOTAL LIVES
Indeminty Plan	14,254	52,117	10,536	76,907	22,595	99,502
PLUS	9,437	1,323	0	10,760	13,544	24,304
Community Choice	2,253	257	0	2,510	3,031	5,541
Fallon Community Health Plan- Direct	936	77	12	1,025	966	1,991
Fallon Community Health Plan-Select	2,285	1,122	111	3,518	3,450	6,968
Harvard Pilgrim Health Care	14,574	3,654	110	18,338	22,624	40,962
Health New England	5,023	1,263	157	6,443	7,193	13,636
Neighborhood Health Plan	1,083	44	65	1,192	1,123	2,315
Tufts Health Plan	27,990	4,221	97	32,308	40,862	73,170
Total Indemnity Plan	14,254	52,117	10,536	87,667	36,139	123,806
Total PPO	54,252	6,848	0	2,510	3,031	5,541
Total HMOs	9,329	5,113	552	62,824	76,218	139,042
TOTAL-ALL	77,835	64,078	11,088	153,001	115,388	268,389
Indemnity Plan % Total	18%	81%	95%	57%	31%	46%
PPO % Total	70%	11%	0%	2%	3%	2%
HMO % Total	12%	8%	5%	41%	66%	52%

*Active enrollment includes enrollment figures for students over 24.
Source: Pool I Age/Sex Composition Analysis, Fiscal Year 2006 and Pool II Age/Sex Composition Analysis, Fiscal Year 2006.

Commonwealth of Massachusetts
Group Insurance Commission

Your Benefits Connection

COMMONWEALTH OF MASSACHUSETTS

GROUP INSURANCE COMMISSION

PO Box 8747, Boston, MA 02114-8747

617.727.2310

TDD/TTY 617.227.8583

www.mass.gov/gic